

AMENDED IN ASSEMBLY APRIL 25, 2011

AMENDED IN ASSEMBLY MARCH 31, 2011

CALIFORNIA LEGISLATURE—2011–12 REGULAR SESSION

ASSEMBLY BILL

No. 1247

Introduced by Assembly Member Fletcher

February 18, 2011

An act to amend Section ~~7503~~ 20229 of the Government Code, relating to public employees' retirement.

LEGISLATIVE COUNSEL'S DIGEST

AB 1247, as amended, Fletcher. Public retirement systems: reporting. *The Public Employees' Retirement Law provides a defined benefit to members of the Public Employees' Retirement System (PERS) based on age at retirement, service credit, and final compensation, as those terms are defined. The management and control of PERS is vested in the Board of Administration of PERS, including the calculation of the contribution rates for specified state employees and state employers. Existing law requires the board to submit a report to the Legislature, the Governor, and the Treasurer describing the investment return assumptions, discount rates, and amortization periods utilized by the board in the calculations of the contribution rates and to include recalculations of those rates based on specified adjustments of the investment return assumptions, amortization periods, and discount rates utilized by the board any time it calculates the contribution rates. Existing law requires the Treasurer, within 30 days following receipt of the report, to provide each house of the Legislature, at a publicly noticed floor session, with an explanation of the role played by the investment return assumption and amortization period in the calculation*

of the contribution rates and the consequences for future state budgets if the investment return assumptions are not realized, to report whether the board's amortization period exceeds the estimated average remaining service periods of employees covered by the contributions, and to express his or her opinion of the reasonableness of the board's calculation of the contribution rates.

This bill would require the Board of Administration of PERS to submit that report annually, would limit the scope of the report to state employee retirement plans, and would revise the adjustments of the investment return assumptions and discount rates utilized by the board any time it calculates the contribution rates. The bill would delete the requirement that the Treasurer express his or her opinion of the reasonableness of the board's calculation of the contribution rates.

Existing law also requires the board, at any time it forecasts contribution rates, to submit a report to the Legislature with a revised calculation of the forecasted contribution rates utilizing a specified investment rate assumption.

This bill would delete this reporting requirement of the board.

~~The California Constitution grants the retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system. Existing law requires all state and local public retirement systems to prepare an annual report in accordance with generally accepted accounting principles. Existing law requires the Boards of Administration of the Public Employees' Retirement System and the State Teachers' Retirement System to file with the Governor and the Legislature a report of its financial statements and investments for the fiscal year. That report is required to include time-weighted market value rate of return on a 5-year, 3-year, and one-year basis and portfolio return comparisons by asset class that compare investment returns with an alternative theoretical portfolio of comparable funds, universes, and indexes regarding the rate of return of the system by asset type.~~

~~This bill would require the annual report of all state and local public retirement systems to include projections of the fair market value of system assets for each of the next 20 years based on assumed rates of returns of 6%, 7 $\frac{3}{4}$ %, and 9 $\frac{1}{2}$ %.~~

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 20229 of the Government Code is
2 amended to read:

3 20229. (a) The board, notwithstanding Section 10231.5, ~~any~~
4 ~~time it adopts the contribution rates described in Chapter 8~~
5 ~~(commencing with Section 20671) and Chapter 9 (commencing~~
6 ~~with Section 20790)~~, shall provide the Legislature, the Governor,
7 and the Treasurer with ~~a~~ *an annual* report that includes all of the
8 following, ~~as these items apply to state employee retirement plans:~~

9 (1) (A) A description of the investment return assumption
10 utilized by the board when determining the contribution rates.

11 (B) A calculation of the contribution rates utilizing an
12 investment return assumption ~~based on the lesser of 6 percent per~~
13 ~~annum or one percentage point~~ *2 percentage points above and 2*
14 ~~percentage points below the investment return assumption utilized~~
15 by the board.

16 (2) (A) A description of the amortization period for any
17 unfunded liabilities utilized by the board when determining the
18 contribution rates.

19 (B) A calculation of the contribution rates based on an
20 amortization period equal to the estimated average remaining
21 service periods of employees covered by the contributions.

22 (3) (A) A description of the discount rate utilized by the board
23 for reporting liabilities.

24 (B) A calculation of those liabilities based upon ~~a discount rate~~
25 ~~equal to the rate of the 10-year United States Treasury Note as of~~
26 ~~30 days before the date of the report~~ *the assumptions described in*
27 ~~subparagraph (B) of paragraph (1).~~

28 (4) The market value of the assets controlled by the board and
29 an explanation of how the actuarial value assigned to those assets
30 differs from the market value of those assets.

31 ~~(b) The board, notwithstanding Section 10231.5, at any time it~~
32 ~~forecasts the contribution rates described in Chapter 8~~
33 ~~(commencing with Section 20671) and Chapter 9 (commencing~~
34 ~~with Section 20790)~~, shall provide the Legislature with a revised
35 ~~calculation of the forecasted contribution rates utilizing an~~
36 ~~investment rate assumption based on the lesser of 6 percent or one~~
37 ~~percentage point below the investment return assumption utilized~~
38 by the board in the calculation of the forecasted contribution rates.

1 (e)

2 (b) The Treasurer within 30 days of receipt of the report required
3 by subdivision (a) shall, during a publicly noticed floor session of
4 each house of the Legislature, do all of the following:

5 (1) Explain the role played by the investment return assumption
6 and amortization period in the calculation of the contribution rates.

7 (2) Describe the consequences for future state budgets should
8 the investment return assumption not be realized.

9 (3) Report whether the board's amortization period exceeds the
10 estimated average remaining service periods of employees covered
11 by the contributions.

12 ~~(4) Express his or her opinion of the reasonableness of the~~
13 ~~board's selection of the investment return assumption and the~~
14 ~~amortization period.~~

15 (d)

16 ~~(c) The reports required by subdivisions (a) and (b) report~~
17 ~~required by subdivision (a) shall be submitted in compliance with~~
18 ~~Section 9795.~~

19 ~~SECTION 1. Section 7503 of the Government Code is amended~~
20 ~~to read:~~

21 ~~7503. (a) All state and local public retirement systems shall~~
22 ~~prepare an annual report in accordance with generally accepted~~
23 ~~accounting principles.~~

24 ~~(b) The report described in subdivision (a) shall include~~
25 ~~projections of the fair market value of system assets for each of~~
26 ~~the next 20 years based on the following assumed rates of returns:~~
27 ~~6 percent, 7 $\frac{3}{4}$ percent, and 9 $\frac{1}{2}$ percent.~~